TARIFF REFORM.

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I.

THE problem of tariff reform, like the poor, seems to be ever with us. Repeated victories for protectionist policies have often made it appear a dead issue, but it has never proved to be a satisfactory corpse. Twenty years ago Congress thought it had found a happy solution of the matter, in the Act of 1883; but in a comparatively short time the accumulation of an enormous surplus revenue made the reduction of federal taxation a live topic for political discussion. After a decade of controversy, in which the fortunes of the contestants varied and a peculiar complication of issues was caused by the rise of the silver question, the protectionists believed that they had won a definitive triumph when, in 1897, they placed the Dingley law upon the statute-book. The country seemed to have been convinced that the crisis of 1893 had been induced by a tariff law enacted in 1894; while the revival of prosperity in 1898 was commonly attributed to the Act of 1897. *Post hoc, ergo propter hoc* was the all-sufficient argument in the latter case; *ante hoc, ergo propter hoc* was the conclusive logic employed in the former. Tariff reform had been once more consigned to the grave, and the protectionists chanted a solemn requiem for the repose of its soul; yet it had been slain by logic so foul that its troubled spirit has never ceased to disturb the dreams of the beneficiaries of the present law. The dead issue has again awakened to new life, and has found fit embodiment in a growing demand that certain clauses of the existing tariff shall be revised.

Popular discontent with the Dingley act is based upon at least four separate reasons, which appeal with varying force to different sections of the country. In the first place, there are many pro-

tectionists who believe that the tariff was intended to stimulate the growth of infant industries, and feel that it has now fulfilled the purpose for which it was designed. Even Mr. McKinley, in his address at Buffalo, intimated that certain duties are no longer needed on this score, and suggested that they might be used as a means of negotiating for commercial advantages in other countries. Then the increased exportation of manufactured products in recent years has given added force to this contention, since it is hard to demonstrate that there is urgent need of protecting an industry that can maintain a continuous trade in foreign markets. Moreover, remarks about the pauper labor of Europe lose their impressiveness when French and German statesmen begin to consider measures for protecting their countries against the competition of American workmen.

A second reason for dissatisfaction developed when our manufacturers began to organize trusts. From the very inception of their favorite policy, protectionists have been compelled to meet the standing objection that their system benefits particular classes at the expense of the rest of the community. Free-traders have asserted that the Government, when it levies a protective duty, holds up the consumer at the custom-house while the domestic manufacturers go through his pockets. The answer of the protectionists has always been the same as that which Hamilton advanced in his famous "Report on Manufactures": "When a domestic manufacture has attained to perfection, and has engaged in the prosecution of it a competent number of persons, it invariably becomes cheaper. . . . The internal competition which takes place soon does away with everything like monopoly, and by degrees reduces the price of the article to the minimum of a reasonable profit on the capital employed. This accords with the reason of the thing and with experience." It is no part of our present purpose to consider the relative values of the objection and the answer; our only object is to point out the fact that the argument for protection has always rested upon the assumption that domestic competition ensures fair treatment of the consumer. Even Hamilton conceded that it "is not an unreasonable supposition that measures that serve to abridge the free competition of foreign articles have a tendency to occasion an enhancement of prices"; and his followers have invariably adopted the line of defence which he employed. Now, it is self-evident that the

growth of trusts has invalidated, to a damaging extent, the traditional argument in defence of protection; and it is not strange that of late the present tariff has been roughly handled even in the house of its friends. "Our infants," as a prominent Republican recently remarked, "have become big enough to rob the old man."

The next ground of complaint is found in the duties that are now imposed upon certain raw materials. The tax on hides has aroused lively opposition among the boot and shoe manufacturers of New England. That upon coal attracted general attention during the anthracite strike, and our people have learned that it was "sneaked" into the Dingley bill by the sharp manœuvres of a malodorous Pennsylvania boss. The duties upon wool are exorbitantly high, even from a protectionist point of view; and they are serving to narrow that portion of the woolen market in which the competition of other fabrics is seriously felt.

A fourth reason for discontent appeals to those who desire freer commercial relations with Canada. From the Atlantic to the Pacific and from the Rio Grande to the Great Lakes, Americans may trade with Americans without let or hindrance. But on our northern border a chain of custom-houses draws a dead-line beyond which trade may not be pushed, save upon payment of heavy fines. The protectionists, it is true, have always attached a profound economic significance to the imaginary line which separates American from Canadian soil; but their arguments have never appealed with great force to business men who have desired to prosecute a profitable trade beyond our northern frontier. In recent years our merchants have watched the growth of a movement toward the establishment of an Imperial customs union, by which Great Britain and her leading colonies would accord to one another mutual advantages that would be denied to other countries. Duties that discriminate against American imports have already been laid by Canada, and it is not impossible that Great Britain may yet accord to Canadian wheat preferential rates over American. Thus a renewed interest has been aroused in reciprocity with our northern neighbor.

And so it has come about that the politicians are observing the temper of their constituents, in order to ascertain whether it is safe to refuse to modify the present law. Upon every hand, it is recognized that modification will mean a reduction or a repeal

of existing duties; of an increase, absolutely nothing is heard. Eight years ago, the protected industries had good reason to think that the favors which they had extorted from Congress were safe for a generation to come; to-day, they are upon the defensive, and fight merely to retain what they now have. He would have been deemed a rash prophet who had ventured to make such a prediction in the year 1897.

II.

At a moment when a reduction of protective duties seems to be only a question of time, it may be worth while to invite attention to a simple object-lesson of the benefits that flow from unrestricted commercial intercourse. The writer does not imagine that absolute freedom of trade is to be established; and he would not argue that an immediate repeal of all duties would be desirable, even if that were possible. But it does seem probable that protectionism reached the height of its power in 1897, and that the future belongs to the advocates of a more liberal policy. If, then, we have finally reached the top of the divide, it is time to prospect the country that lies beyond.

A careful survey of the ground, it is believed, will demonstrate that a system of free exchange involves nothing that is essentially different, in its economic nature, from what the people of the United States have practised in their domestic affairs for more than one hundred years. Over a territory nearly as large as the whole of Europe, our Constitution established absolute freedom of trade, and under this policy all sections of the country have grown and prospered. Of this a striking object-lesson may be drawn from that fastest stronghold of protectionism, the State of Pennsylvania; and this, too, from the commonwealth's leading industry, the manufacture of iron and steel.

In 1870, the iron trade of Pennsylvania was located chiefly in the eastern part of the State, near the deposits of iron ore as well as the anthracite coal-fields that supplied the principal form of fuel then used in smelting. During the next twenty years, however, revolutionary changes occurred, and the seat of the industry was transferred to the vicinity of Pittsburg. This revolution was due principally to two causes. In the first place, bituminous coal, mainly in the form of coke, superseded anthracite as the fuel for the blast-furnace; and this favored the growth of iron manufactures near the bituminous mines in the western part

of the State. Then, in the second place, the ores produced in New York, New Jersey and Pennsylvania were largely displaced by those secured in the region south and west of Lake Superior. This circumstance, also, compelled the migration of Pennsylvania's iron trade to a location nearer the rich mines of Michigan and Minnesota. Connellsville coke and Lake Superior ores have been the decisive factors in determining the supremacy of the Pittsburg district; without them, the progress of recent decades would have been impossible.

Pennsylvania was fortunate in possessing the bituminous coal that has given to Connellsville coke its exceptional availability for the purposes of the ironmaster; but, in respect to the supply of iron ore, her situation was far less favorable. Since 1860 the cost of manufacturing steel has been so greatly cheapened that this material has largely displaced iron, and its production has increased enormously. The greater part of the product has been obtained by the processes invented by Sir Henry Bessemer, although other methods have found increasing employment in recent years. Pennsylvania has large deposits of iron ore; but the output of some mines contains too much sulphur or phosphorus to be of Bessemer grade, while other ores, although freer from these troublesome substances, yield a relatively small proportion of pure iron. In both of these particulars the ore that comes from the Lake region is unexcelled, and improved methods of mining and transportation have enabled it to find its way into remote Eastern markets. Thus it has come about that Pennsylvania ores have played an insignificant part in the recent development of the steel industry of that State.

Another result of the increased use of Lake Superior ores has been the rapid growth of the iron and steel trade in Ohio and Illinois. A considerable part of the ore is transported to Chicago, where it is smelted with fuel brought from the mines of Pennsylvania or West Virginia; still more is carried to Toledo, Cleveland, and other points on Lake Erie, where it is claimed by the ironmasters of Ohio. Connellsville or West Virginia coke can be brought to these points at comparatively small expense, and the manufacture of iron and steel has increased with leaps and bounds. In 1880, Illinois produced but 85,000 tons of pig iron, while in 1900 her output was 1,469,000. In the former year, Ohio's product was 489,000 tons, and in the latter it rose to

2,559,000.* Twenty years ago, these two States produced only one third as much pig iron as Pennsylvania; to-day the proportion has increased to nearly two-thirds.

Attention has been called to these facts because they show the important part which the introduction of Lake ores has played in the recent growth of the iron and steel trade of the United States. The industry has naturally gravitated toward the West, Ohio and Illinois have forged their way to the front, and Pennsylvania has maintained her position as the leading producer only by making strenuous efforts to secure the best available ores at the lowest possible cost. If she had failed in this, her sceptre would have passed to other hands; so that her steel industry to-day is an eloquent witness to the importance of free trade in the raw materials upon which its success depends.

III.

So much for the historical facts and their obvious interpretation. We may now consider what would have been the result if freedom of exchange had not existed. Let us suppose that in 1880 Pennsylvania had been an independent commonwealth, free, therefore, to regulate her external commercial relations in whatever manner she might desire. She had important interests that centered in the production of iron ore; she had also a dominating position in the iron and steel trade of North America. Both of these industries, doubtless, would have claimed the fostering care of the Government, and would have been protected by substantial duties upon the importation of competing products. Free trade with such a foreign community as New Jersey would not have been tolerated for a moment, and the boundary line between the Keystone and the Empire States would have possessed profound economic significance.

Suddenly there arises in this blest land of protection, whose peace is never disturbed by the voice of a free-trader, the spectre of impending ruin to one of its great industries. Upon the southern shores of Lake Superior some wonderful iron mines had been developed, and it was rumored that even greater deposits

* Equally interesting are the figures showing the production of steel in all its forms. In 1880, Ohio and Illinois manufactured 628,000 tons of steel products, and Pennsylvania's output was 1,483,000. In 1900, the former States produced 4,222,000 tons, while the latter manufactured 8,503,000.

had been discovered still farther to the west. In 1860, the entire output from this region was hardly more than one hundred thousand tons, and the intervening distance was so great that it seemed impossible that the ore could ever be brought into Eastern markets. Under such circumstances, Pennsylvania had been content to impose upon iron very moderate duties, which had been "scientifically" adjusted by a commission of "experts," so that they precisely covered the difference between the cost of production in the best mines of New York or New Jersey and that which prevailed in the poorest local mines that it seemed worth while to keep in operation. But now the development of the resources of the Lake region and a great improvement of means of transportation had enabled Michigan ores to come into Pennsylvania over the barrier set by the protective duties, while, moreover, the steel manufacturers were showing a decided preference for the imported product. By 1880 the output from the Lake Superior mines almost equalled the amount produced by Pennsylvania, and it seemed that a veritable inundation of Western ores was about to take place.

Immediately the owners of iron mines began to clamor for higher duties. They represented enterprises which, according to a census taken that very year, employed nearly nine thousand men and a capital of $17,621,000. Upon this imperilled industry the livelihood of nearly fifty thousand people depended. Could the land that had produced an economist like Carey and a statesman like Kelley idly watch the destruction of such important interests?

When the question was first raised, the steel manufacturers contended that the duties were already too high, because the welfare of their industry depended upon their ability to secure good Bessemer ores. This action called forth a long letter from "Pig-iron Kelley," who justly rebuked the steel men for their selfish attitude. He showed them that protection must be a national policy that applied equally to all industries, and intimated that the representatives from the eastern counties would vote to remove the tariff upon steel if the people from the Pittsburg district refused to deal fairly with the producers of iron ore. When Mr. Carnegie, the spokesman of the steel manufacturers, replied that there was no adequate reason for increasing the existing tariff on ore, Mr. Kelley retorted that, in Pennsylvania, the burden of

proof would always fall upon the person who advocated any duty of less than one hundred per cent. In the end the manufacturers, seeing that the battle was going against themselves, withdrew their opposition to the demands of the miners, in consideration of a substantial increase of the duty upon steel. Thus, after a number of minor industries had received similar inducements, the legislature raised the duties upon all iron ores to a flat rate of three dollars per ton.

The rest of the story is quickly told. Events proved that the steel industry could not be developed upon any large scale without an abundant supply of the Lake Superior ores. This fact was perceived by the people of Ohio, who immediately repealed all duties upon these valuable raw materials. Happily for that State, the domestic production of iron ore had always been so small that the miners were unable to make any effective opposition. If Ohio had been unlucky enough to possess large deposits of ordinary ores, her industrial development might have been seriously checked, because her people had always favored the general policy of protection. But in this case it did not seem worth while to cripple the steel manufacture for the sake of an industry that employed less than two thousand men. Thus it came about that the ores which Pennsylvania rejected contributed to the rapid development of the steel industry of her neighbor. Ohio levied no duties upon the coke which her manufacturers brought, under very favorable conditions, from Pennsylvania and West Virginia, since here again there was no local interest strong enough to stand in the way. Pennsylvania was able, by means of heavy duties, to preserve the local market for her iron and steel manufactures; but in all neutral territory Ohio's ironmasters established their complete supremacy. In the course of time, Mr. Carnegie, abandoning an unequal contest, built enormous plants at some of the Lake ports of Ohio, and reduced the capacity of his Pittsburg mills to the demands of the "home market." Pennsylvania had protected her iron mines, but had lost the magnificent steel industry that might have been hers for less than the mere asking.

IV.

We have left the domain of history to dwell for a time in the realm of hypothesis, for the purpose of enforcing the principle that freedom of exchange is favorable to the highest development

of the industries of a community. Granting, for present purposes, that there may be exceptions to the rule, the general truth of the proposition finds striking confirmation in the example which Pennsylvania affords.

Usually, when an appeal is made to the experience of the United States under the policy of unrestricted domestic trade, the protectionist argues that with foreign commerce the situation is radically different. If the iron miners of Pennsylvania were injured by the introduction of Lake ores, Minnesota and Michigan received great benefits, so that the country, as a whole, lost nothing. But he contends that the importation of cheaper *foreign* products throws domestic labor and capital out of employment, and reduces to that extent the opportunities open to home industry.

It is precisely at this point that the experience of Pennsylvania will enable us to detect the fallacy of the protectionist's argument. He assumes that the field of investment is limited to the opportunities that are utilized at any given time, and that, if producers are driven out of any existing industry, they cannot find employment elsewhere. In this respect, his theory is precisely like that of the trade-unionist who would prevent a laborer from doing all the work he can reasonably perform, or would oppose the introduction of a new machine, in order to avert a possible reduction in the demand for labor. Both perceive nothing but the immediate injury done to a certain number of persons by the introduction of a cheaper commodity or a labor-saving appliance; yet their argument is not wanting in plausibility, since they can point to something that is seen and tangible.

Most of us are convinced that machinery does not permanently reduce the demand for labor, even though it may effect a temporary displacement; and the same thing is true with the importation of a cheap commodity. Pennsylvania has imported Lake Superior iron, and this ore has been largely substituted for the product of her own mines. The census of 1880 showed that the State produced at that time 2,185,000 tons of iron ore; while the statistics gathered by the Geological Survey place the product for 1900 at 877,000 tons. Free trade has destroyed the larger part of what was formerly a great industry, mine after mine has been closed, and labor and capital have been thrown out of employment. So far as Pennsylvania is concerned, the iron from

Michigan and Minnesota was precisely like an import from a foreign country; and the protectionist's theory would compel him to affirm that the industries of the State were decreased by the introduction of these ores. Yet we know that the development of the Lake Superior mines has been of the greatest benefit to Pennsylvania, as well as to other States.

The explanation of the problem is found in the fact that the field for the investment of labor and capital in Pennsylvania was not limited to the opportunities that were utilized in 1880. Cheap iron made it possible to develop the manufacture of steel at an astonishing rate; while cheap steel benefited almost every other industry in the State. The loss occasioned by the closing of certain mines was insignificant, when compared with the advantages derived from the trade in Lake Superior ores; and Pennsylvania would be poorer to-day if she had been able to place a prohibitory tariff upon iron twenty years ago.

Our conclusion is, therefore, that the introduction of a new import simply forces labor and capital into other branches of industry, and does not permanently narrow the field of investment. If some initial loss is occasioned by the displacement of certain domestic enterprises, this is more than counterbalanced by the saving which the consumers are able to effect, because the consumers of any article will generally outnumber the producers. When the imported commodity is a raw material, the advantage may accrue in the first instance to those who use the article for industrial purposes; but, in the end, the benefits will be diffused among the masses of the people. Until we can foresee some limit to the growth and diversification of human wants the result can never be otherwise.

By an appeal to the actual experience of one of our leading industries, we have endeavored to show that freedom of exchange involves nothing that is essentially different from the conditions that have always governed the internal trade of the United States. If we are soon to enter upon a more liberal policy in respect to external commerce, it may be reassuring to realize that we are not embarking upon a voyage in unknown seas. Students of our economic history may safely indulge in the belief that at the end of the journey lies no wholly unfamiliar land.

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